

THE PEOPLE'S REPUBLIC OF CHINA

REAL GROSS DOMESTIC PRODUCT

The national economy of China grew rapidly. China's gross domestic product (GDP) in 2003 reached US\$1409.91 billion, an increase of 9.1 percent in comparable prices over the previous year, and 1.1 percent faster growth.

Investment in fixed assets enjoyed a relatively substantial growth. It was particularly noteworthy that the haphazard investment had appeared in parts of industries. The investment in fixed assets for the whole society in 2003 reached US\$665.94, which was a 26.7 percent increase over the previous year. The growth of investment in industrial enterprises was obviously faster than that in other industries, and was much higher in some parts of industries, among them, investment in iron and steel grew by 92.6 percent, cement industries by 121.6 percent, automobile industries by 87.2 percent, textile industries by 80.4 percent and coal industries by 52.3 percent. Investment in real estate development grew by 29.7 percent over the previous year.

Consumption demand went up steadily with the continued improvement in the living standards of the people. The total retail sales of consumer goods were US\$553.87 billion, with a growth of 9.1 percent year-on-year. When measured by price the growth rate reaches 9.2 percent. The annual per capita governable income for the residents in cities and towns was US\$1023.60, the growth rate would reach 9.0 percent if measured by price; the per capita net income of residents in rural areas was US\$316.79, with a growth of 4.3 percent year-on-year. The Engel coefficients of residents in urban and rural areas were 37.1 and 45.6 percent respectively, 0.7 percentage points lower than the previous year. The social security system was further consolidated and improved. By the end of 2003, the number of residents covered by the basic old-age insurance system reached 154.90 million, with a growth of 7.53 million over the previous year.

The role of net export playing in stimulating the economic growth diminished. The favorable balance of trade in 2003 reached US\$25.6 billion, which was US\$4.8 billion lower than that of the previous year.

The scope of foreign investment continued to expand, and the quality of foreign investment utilization constantly improved. A total of US\$53.5 billion in foreign direct investment (FDI) was actually utilized, a year-on-year increase of 1.4 percent.

There are still many difficulties and problems in China's economic and social development that we cannot afford to ignore. For example, farmers have difficulties increasing their income; the problem of unemployment and social security remain serious; considerable disparity remains between supply and demand in coal, electricity, oil and transport capacity; too much investment is still put in fixed assets; the problem of haphazard investment and low-level, redundant expansion are worsening in some industries and localities; there is an excessively wide income gap between some members of society, and in both urban and rural areas many low-income people lead a fairly difficult life; the pressure on the environment from developing natural resources and the need for environmental protection becomes more and more serious, etc.

Early in 2004, China's national economy grew rapidly. In the first quarter of 2004, GDP grew by 9.8 percent, but some salient conflicts and problems in China's economic development since 2003 remain serious. These chiefly include:

Investment demand enjoyed a rapid expansion. In the first quarter of 2004, the investment in fixed assets for the whole economy reached a year-on-year increase of 43 percent, 15.2 percentage points higher than 2003. The growth of investment in real estate development rose quickly; investment in some areas, especially in coastal areas was perhaps too fast. Investment in eastern areas increased by 47.8 percent, accounting for 64.2 percent of investment of all FDI in China.

The scale of monetary credit remains too large. By the end of March 2004, the broad money supply (M2) reached a year-on-year increase of 19.2 percent, 0.7 percentage points higher than in 2003, and much lower than the increase in the previous year.

Considerable disparity remains between supply and demand in coal, electricity and transport capacity. In the first quarter of 2004, the production of electricity increased by 15.7 percent. Although the utilization ratios of China's various electricity generating equipments have reached their peak point, 17 provinces still have to switch off the power to limit the consumption of electricity. The situation was worst in East-China and South-China. Also, in the same period, although a considerable disparity remain between supply and demand in coal, the production of coal increased by 14.4 percent over the previous year. However, the demand for coal still could not be met.

INFLATION

Market prices rose throughout 2003. The general level of consumer prices rose by 1.2 percent over the previous year, with the rate rising by 0.9 percent in urban areas and by 1.6 percent in rural areas.

In the first half of 2004, inflation pressure grew. Driven by the rapid growth of investment, the general level of capital goods prices in the field of circulation rose by 8.1 percent over the previous year. A year-on-year increase of 14.8 percent was noted in the first quarter of 2004. In the same period, the general level of consumer prices rose by 2.8 percent, with the influence of grain prices accounting for 2.4 percent. Moreover, the rising prices of iron ore, aluminum oxide and cotton on the international market forced domestic production costs to rise.

EMPLOYMENT

Adjustment of economic structure, reform of state-owned enterprises, shift of surplus rural laborers to non-agricultural industries and the coming peak of employment bring greater pressures to China's human resource market. By the end of 2003, the total number of employees was 744.32 million, which was 6.92 million more than the previous year. Of these, 256.39 million employees were in urban areas, with an increase of 8.59 million year-on-year. By the end of 2003, all laid-off employees had found new jobs. During the same period, the urban registered unemployment rate was 4.3 percent, 0.3 percentage points higher than that in 2002.

The social security system was further consolidated and improved. By the end of 2003, the number of residents covered by the basic old-age insurance program reached 154.90 million, 7.53 million more than the previous year.

BALANCE OF PAYMENTS

Foreign trade continued its high growth in 2003. Total volume of exports and imports for the year reached US\$851.2 billion, up by 37.1 percent over the previous year, taking the economy from fifth to fourth in the world. The total volume of exports reached US\$438.4 billion, up by 34.6 percent over the previous year. The total volume of imports reached US\$412.8 billion, up by 39.9 percent over the previous year. The trade surplus in 2003 reached US\$25.6 billion.

Services trade continued to develop. The international tourism industry was influenced by SARS. In 2003, China welcomed 91.66 million tourists from overseas, this was down by 6.4 percent year-on-year. The foreign currency revenue from international tourism was US\$29.31 billion, down by 12.3 percent year-on-year.

FDI remained very significant in 2003. The actual value of foreign direct investment utilization was US\$53.5 billion, up by 1.4 percent over the previous year.

China's foreign exchange reserves continued to increase. By the end of 2003, the total amount of the foreign reserves was US\$403.25 billion.

EXCHANGE RATE

The exchange rate of the renminbi (RMB) against foreign currency remained stable. By the end of 2003, 1 US dollar was equal to 8.2767 RMB, an appreciation of 6 basis points, in comparison with the rate at the end of 2002.

GROSS EXTERNAL DEBT

By the end of 2003, excluding Hong Kong SAR, Macao SAR, the recorded balance of foreign debt amounted to US\$193.63 billion, which was US\$22.28 billion more than the previous year (up by 13 percent). Long-term and mid-term debts were US\$116.59 billion, which accounted for 60.21 percent, US\$1.03 billion more than the previous year; while short-term debt reached US\$77.04 billion, accounting for 39.79 percent, 21.25 billion US dollars more than the previous year.

Because of the rapid growth of China's economy, environmental optimization of the utilization of foreign investment and the change in the exchange rate, China's recorded balances of foreign debt and recently-borrowed external debt increased by a bigger margin than expected. However, thanks to China's abundant foreign exchange reserves and strong solvency, according to preliminary calculations, the rate of debt (the recorded balance of the foreign debts divided by the income of foreign currency from cargo trade and services trade) was 39.9 percent and the debt ratio (the recorded balance of foreign debt divided by GDP) was 13.74 percent by the end of 2003. Short term debt divided by the foreign exchange reserves was 19 percent. All in all, every relevant index was kept below the international safety line.

MACRO-ECONOMIC REGULATION

Since 2003, the Chinese economy has been over-heated in some sectors. To deal with the problems such as too much growth in fixed assets investment in some industries and areas; too much monetary credit growth; the tense situation for coal supply; power, crude oil and some crucial raw materials; and rising grain prices, many measures have been taken to regulate the macro-economy, so as to rebuild farmers' confidence in growing grain crops, strictly control unreasonable investment, and tackle the serious problems of low-level redundant construction in certain trades and areas; tighten up management of the real estate and land markets and seasonably adjust monetary credit policy. In the first four months of 2004, the above-mentioned measures taken in 2003 began to bring about the following striking effects.

The rate of increase in fixed assets investment continues to decrease. In the first four months of 2004, the rate of increase was 5 percentage points lower than that of first three months of 2004. In April, the amount of investment reached US\$48.20 billion, an increase of 34.7 percent over the previous year, the rate of increase falling by 8.8 percent over this March. The growth of investment in the development of real estate continued to slow down. In the first four months of 2004, investment in the development of real estate reached US\$32.45 billion, an increase of 34.6 percent over the previous year. In this April the amount of investment had a remarkable growth of 22.8 percent. Except in some industries, such as petroleum chemical, the rate of increase in the main industries was poised to fall.

Although there was, initially, an increase in the number of newly-started projects, since April this was brought under control. In the first four months, the amount of new-started projects reached 32,887, an increase of 30.5 percent over the previous year. In April, there were 11,218 new projects in operation, an increase by 5.9 percent over the previous year. The rate of increase was clearly falling.

The rising tendency of monetary credit and supply was put under control initially. The tightened policy, including raising the rate of deposit reserves, which was done in the second half of 2003, has already retarded the rapid growth of monetary credit and investment. In this March and April, other much more strictly tightened policies, such as differential rate of reserves, floating rate of re-loan etc. began to be implemented. Their effects will be felt gradually, so as to further restrain the growth of investment and national economy as a whole. The growth of monetary credit has fallen since 2004. In the first quarter of 2004, the broad monetary supply (M2) increased by 19.1

percent, the balance of RMB credit held by financial institution increased by 20.7 percent, less than in the second half of 2003.

Development of China's economy began to stabilize. The short supply of capital goods has eased up, the prices of steel and electricity began to drop substantially; both the rise in the crude oil price and enterprises' increased demand for the import of raw materials pushed the total amount of exports to rise. As a result, China's unfavorable balance of trade broadened from US\$540 million in March 2004 to US\$2.26 billion. In April, the rate of growth of China's industry grew by 19.1 percent, the third successive month to post lower growth.

On the basis of the above analysis, we can conclude that China's macro-economic regulation has had four main effects: the rapid growth of investment is slowing down gradually overall and, the rate of increase in real estate has fallen distinctly; in April, newly-started projects were brought under control; the growth in monetary credit fell substantially; the problem of bottlenecks in the economy's development have begun to be tackled.

FISCAL POLICY

In 2003, finance played a more important role in macro-control and in safeguarding the economy. The Government continued to follow a proactive fiscal policy to promote sustained and rapid growth of China's economy. The statistics in this section does not include debt revenues. In 2003, the total fiscal revenue reached US\$262.07 billion, a increase of US\$33.67 billion, up by 14.7 percent year-on-year and 105.8 percent of the budgeted figure. National expenditures totaled US\$297.30 billion, an increase of US\$30.86 billion or 11.6 percent year-on-year and 103.8 percent of the budgeted figure. The deficit in the central budget was held to US\$38.64 billion as approved at the First Session of the Tenth National Party Conference. The orientation and structure of the use of treasury bonds was improved by giving preference to rural areas, economic restructuring, the central and western regions, science and technology, education, improvement of the ecological environment and public health services. Transfer payments were increased to promote balanced development among different regions. General transfer payments from the central budget to local government in 2003 totaled US\$23.10 billion, 17.9 percent more than the previous year. Special transfer payments earmarked for social security, agriculture, science and technology, education, health and poverty alleviation amounted to US\$31.14 billion, up 7.3 percent year-on-year.

MONETARY POLICY

The People's Bank of China continued to operate a stable monetary policy, the regulation of monetary credit had positive achievements, the tendency towards rapid growth of monetary credit has been brought under effective control, so as to provide a stable financial background for the sustainable, rapid and healthy development of China's economy. By the end of 2003, the balance of M2 reached US\$2670.1 billion, up by 19.6 percent year-on-year. In the first nine months of 2003, the monetary credit of financial institutions increased, but was under effective control in the last quarter.

MEDIUM-TERM ECONOMIC OUTLOOK

In 2004, China's economic development is at its critical juncture. The Government is going to make full use of economic leverage, coordinating other regulating measures to strengthen macro-economic regulation and ensure the stable, harmonious and rapid development of China's economy. The emphasis of macro-economic regulation in 2004 is to solve the following four crucial problems, which affect the overall situation:

Controlling the too fast growing of the investment in fixed assets. Since 2004, investment in fixed assets has been speeding up rapidly. If this tendency were allowed to run its course, China would encounter problems such as a shortage of resources and deterioration of the environment. So regulation in 2004 should focus on controlling this too rapid growth of fixed asset investment, especially by controlling the tendency towards haphazard investment and low-level expansion in some industries and localities, and by strict control of newly-started projects so as to improve management of the government's investment.

Alleviating the disparity between supply and demand in coal, electricity, oil and transport capacity. With the stimulation of a too rapid growth in investment, these disparities become worse and worse. Therefore, the macro-economic regulation requires a balance between the supply of resources and the constraints on their use. On the one side, supply can increase on the basis of ensuring safety; on the other side, the management of demand should be strengthened, emphasizing the economization of resources and their comprehensive utilization.

Strengthening grain production capability and improving China's food security. Every policy and measure, to support the major grain producing areas must be carried out continuously. The government should actually strengthen the supervision and management of the prices of agricultural production materials should be strengthened, and the prices of grain stabilized by regulating the grain market.

Keeping the general level of prices essentially stable. Rising prices of grain and raw materials posits much more pressure for a further rise of general level of prices. It is necessary to measure and take notice of changes in supply and demand as they occur, so that policies and economic measures can be implemented to prevent disruption of the economy.

The various problems in some important industries and for some products should be addressed comprehensively, especially the shortages of energy and raw materials caused by the too rapid growth of those industries and products. By doing so, the optimal allocation of resources and balance between supply and demand can be achieved.

In 2004, China's economy is expected to maintain sound growth.

STRUCTURAL REFORM

During the following year, 2004–05 the Chinese Government will focus on accomplishing the following tasks:

Adopting comprehensive measures to increase rural incomes and maintain and increase grain production capacity.

Adjusting the orientation of investment by using treasury bonds, which will be brought into full play in promoting restructuring and balancing development. The Government will ensure the continuity and stability of its macroeconomic policies, adhere to the principle of stimulating domestic demand, and continue to implement a proactive fiscal policy and prudent monetary policy. At the same time, it will make timely and appropriate adjustments to the emphasis and intensity of these policies in response to changes in the economy. This year the focus of these treasury bonds will be shifted from the previous emphasis on expanding domestic demand and stimulating economic growth, to promoting restructuring and balancing economic and social development. The Government will speed up construction on key bond-financed projects, and strengthen inspection supervision and management of bond-financed projects to ensure both more efficient use of the funds and the quality of these projects.

Adjusting and optimizing the industrial structure and keeping the stability of economic growth. In line with the new path of industrialization China will be taking, the Government will promote technological innovation and speed up industrial restructuring, emphasizing rejuvenation of equipment manufacturing industries, exercising appropriate control over the scale of fixed assets investment and rigorously curbing haphazard investment and low-level, redundant construction in some industries and regions, working hard to alleviate bottlenecks in economic development, alleviating the disparity between supply and demand in coal, electricity, oil, transport capacity and important raw and processed materials.

Implementing a proactive employment policy and continuing to expand consumer spending and improve people's lives. The Government will further implement existing measures, such as fiscal and credit support, tax and fee cuts and exemptions, and do everything possible to create more

jobs, improve the consumer environment, expand consumer spending and gradually increase the proportion of consumption in Chinese GDP.

Increasing revenue, reducing expenditures and ensuring steady and sound financial operations, controlling the scale of credit reasonably.

Balancing the development of regional economies so that the eastern, central and western regions can complement each other and develop at the same time. The Government will improve and implement all the policies and measures for developing the western region, implementing the strategy for revitalizing northeast China and other old industrial bases. Economic exchanges and cooperation will be increased between the eastern, central and western regions to create economic zones and belts with distinctive features.

Promoting steady growth of foreign trade and utilizing foreign funds better. The Government will coordinate domestic development with opening up the economy and continue to implement policies and measures for expanding opening up and encouraging foreign investment.

Continuing to implement the strategy of sustainable development and balancing social and economic development with population growth, resource exploitation and environmental protection. The Government will raise people's awareness of endangered natural resources and the need to conserve them, vigorously develop recycling industries and establish a conservation-minded society.

Continuing to promote the development of science, technology and education and developing all social undertakings. The Government will implement the strategy of relying on talented personnel to strengthen the economy. The top priority in education will continue to be rural education. The Government will lose no time in improving the mechanism for ensuring adequate funding for rural education to make it more regular and institutionalized, and will actively develop culture, health, sports, radio, film, TV, the press, publishing and other undertakings.

Note:

1. The 2003 statistics of 2003 are quoted from the official statistics (original data) published by the National Bureau of Statistics of China.
2. The statistics for Hong Kong Special Administration Region and Macao Special Administration Region are not included.
3. Statistics do not include the data of Chinese Taipei.
4. The absolute values of GDP and the value-added of the sectors are calculated based on the current value, while the growth rates are calculated based on the comparable price.

ANNEX I

CHINA: OVERALL ECONOMIC PERFORMANCE

	1998	1999	2000	2001	2002	2003
GDP and Major Components (percent change, year over year, except as noted)						
Nominal GDP (level in billion US\$)	960.9	991.1	1080	1159	1237.1	1409.91
Real GDP	7.8	7.1	8.0	7.3	8.0	9.1
Consumption	6.8	7.9	10.4	8.1	10.2	9.2
Private Consumption	6.1	6.8	9.5	6.9	13.6	7.7
Government Consumption	8.9	12.0	13.8	12.2	18.2	6.8
Investment	14.41	5.2	9.3	12.1 ¹	16.1	26.7
Private Investment	-	-	-	-	-	-
Government Investment	-	-	-	-	-	-
Exports of Goods	0.52	6.1	27.8	6.4	22.3	34.6
Imports of Goods	-1.53	18.2	35.8	8.2	21.2	39.9
Fiscal and External Balance (percent of GDP)						
Budget Balance	-1.5	-2.1	-2.8	-2.6	-3.0	-2.7
Merchandise Trade Balance	5.48	2.9	2.23	1.6	2.5	1.8
Current Account Balance	3.03	1.07	1.90	1.5	2.86	3.26
Capital and Financial Non-reserve Assets Balance	0.00	0.01	0.18	3	2.61	0.37
Economic Indicators (percent change, year over year, except as noted)						
GDP Deflator	-1.3	-3.0	0.9	0.0	-1.3	3.9
CPI	-0.8	-1.4	0.4	0.7	-0.8	1.2
M2	15.3	14.7	12.3	14.4	16.8	19.6
Short-term Interest Rate (percent)	6.34 ⁴	5.58	5.58	5.58	5.58	5.58
Real Effective Exchange Rate (level, 1995=100)	8.28	8.28	8.28	8.2766	8.2773	8.2767
Unemployment Rate (percent)	3.1	3.1	3.1	3.6	4.0	4.3
Population (millions)	1248.1	1259.1	1265.8	1276.3	1284.5	1292.3

¹ Real Investment in Fixed Asset Growth

² Current price

³ Current price

⁴ 3 months Inter-Bank rate

ANNEX II

CHINA: FORECAST SUMMARY (percent change from previous year)

	2003						2004					
	Official	IMF	ADB	OECD	PECC	Link	Official	IMF	ADB	OECD	PECC	Link
Real GDP	9.1	N.A.	N.A.	N.A.	N.A.	N.A.	9.0	8.5	8.3	N.A.	N.A.	N.A.
Exports	34.6	N.A.	N.A.	N.A.	N.A.	N.A.	31	N.A.	N.A.	N.A.	N.A.	N.A.
Imports	39.9	N.A.	N.A.	N.A.	N.A.	N.A.	35	N.A.	N.A.	N.A.	N.A.	N.A.
CPI	1.2	N.A.	N.A.	N.A.	N.A.	N.A.	3.5	N.A.	N.A.	N.A.	N.A.	N.A.

ANNEX III

CHINA: MEDIUM-TERM TREND FORECAST (percent)

	2004-2009
Real GDP	8.5
GDP Deflator	3